DTE 2-1 All parties should comment on the nature and magnitude of any potential commodity-cost implications of a shift to a path, rather than slice-of-system, approach to capacity assignment, as raised in Bay State Gas Company's Reply Comments, at p. 6.

Response:

We encourage the Department to convene technical sessions to develop the path approach if the Department determines a path approach is preferable to a slice approach. The parties together should be able to design reasonable paths that have neutral cost consequences. If paths are set up incorrectly, it could benefit one party to the detriment of the other. If done correctly the differences, if any, should be negligible. The operational procedures and mechanics can be discussed and developed in the technical sessions. Commodity differentials, with the exception of Canadian commodity differentials, should also offset each other over time. Due to differing rate designs, Canadian managed supplies will necessarily need to be separated from domestic resources and have their own path.

A path approach allows an assignment program to operate more efficiently, without stranding capacity and increasing costs to customers. A path approach will reduce costs to transportation customers due to these efficiencies. As noted in the comments filed by the various marketers, the path approach has worked for a number of years in other state jurisdictions with success, and we intend that it will be able to work in Massachusetts as well.

DTE 2-2 Please provide a discussion of other potential implications, besides commodity costs addressed in the previous Information Request, of a shift to the path-based capacity-assignment standard.

Response: Hess and Select are not aware of any negative implications– Refer to 2-1 for benefits.

DTE 2-3 Discuss the question as to (i) whether a shift to the path capacity-assignment standard will ease administrative burdens of contract management and thereby increase competitiveness of marketers and (ii) assuming a fully and workably competitive Massachusetts gas market, whether the impact of path-specific commodity-cost differentials will diminish as transportation volumes increase as a percentage of LDC throughput.

Response:

(i) We know from experience operating under both the path and slice methods that a path approach will ease administration efforts and will improve efficiency to both LDCs and marketers. Path-specific commodity differentials should offset each other over time.

(ii) Unless the Department changes the design of its current program, the retail natural gas market will not improve, let alone reach its full potential and provide Massachusetts consumers with the benefits of a functional competitive market. . However, before it can become a viable retail market, a number of problems must be resolved. Moving to a path approach is a first step toward fixing the rules that are preventing the market from progressing any further. There will not be a viable competitive market without moving away from a slice. Additionally, commodity differentials will diminish as the market improves.

DTE 2-4 Assuming the Department were to adopt a standard of path-based capacity assignment, please enumerate and discuss what Terms and Conditions changes might be necessary to implement such a shift.

Response:

Changes in the terms and conditions should not be made without discussions between the key stakeholders. The specific methodology to implement a path approach should be determined before terms and conditions language is drafted. Once that methodology is developed through analysis of the LDCs' portfolios, the following sections of the terms and conditions will need to be rewritten:

Section 13.0 Capacity Assignment
13.2 Identification of paths for assignment
13.9 Company Managed Supplies
Section 24.0 Supplier Terms and Conditions – Will need a new section for the capacity adjustment charge or credit.
References to pro-rata assignment would need to be changed in other sections

We recommend the Department facilitate a working group to devise a methodology, and then develop appropriate tariff language.

DTE 04-01
Responses of Amerada Hess Corp. and Select Energy, Inc.
Second Set of Information Requests from the DTE
Witness: Rebecca Bachelder
July 15, 2004

DTE 2-5 What Terms and Conditions changes might need to be implemented in order that a shift to the path capacity-assignment standard would spare firm and transportation customers of any commodity-cost subsidization?

Response:

Section 24.0 Supplier Terms and Conditions – The capacity adjustment or credit, which will adjust the marketer's capacity cost to be an average cost, needs to be designed and written. No commodity adjustment should be necessary if Canadian managed supplies are held in a separate managed supply path. See also 2-1.

DTE 2-7 If the Department were to decline to adopt the terms and conditions changes proposed by the marketers[1] and adopted a path approach instead of a slice-of-system approach, please address the effect on system operations and competition.

Response:

Hess and Select are puzzled as to why a change to a path approach and other changes to the terms and conditions would be mutually exclusive. We see no reason to approve one and not others if the objective is to improve the competitive gas market in the Commonwealth. Each potential change should be evaluated separately on its own merits. There should not be a trade-off of one for another. If the Department's goal is to evaluate the current market rules with the goal of removing the barriers to competition, as it has done in the electric industry, it should consider all potential changes presented in comments.

We are hopeful that a systematic review of the terms and conditions can be made in addition to the change in capacity assignment. There are other areas in need of addressing in addition to the few presented by the marketers in their initial comments, for example, a few years ago the marketers requested the LDCs to review the algorithm cashouts on a semi-annual basis instead of annually. That issue needs to be reviewed yet again as the LDCs' algorithms have been causing the marketers to systematically over-deliver on peak high-cost days, and then they are cashed out at a six (6) month average price effectively subsidizing firm sales customers' CGAs. Hess and Select calculate this subsidy is costing each of them hundreds of thousands of dollars each year.

We need an ongoing mechanism to allow issues such as the above to be identified and addressed in a timely manner if we are going to continue to improve the system. Recent history has demonstrated that the LDCs are not likely or are unwilling to voluntarily change operational provisions unless the Department provides them with some type of regulatory guidance or financial incentive.

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1 These changes include: (i) monthly re-call and re-release of capacity; (ii) balancing penalty provisions, (iii) synchronization of nomination deadlines and procedures with industry standards; (iv) marketer access to the algorithms used by LDCs to forecast the usage of non-daily metered customers; and (v) modification of the algorithms used to forecast the usage of non-daily metered customers for summer and winter loads to exclude weather sensitivity calculations.

DTE 2-7 (cont.)

With respect to the terms and conditions changes raised by the marketers, they are independent of one another and each carries its own benefit. As each of these areas is addressed, they build upon one another to improve the market.

Monthly Recall and Re-release- Elimination would improve the value of released capacity and would streamline administration.
Balancing Penalty – Mitigation of excessive imbalance penalties will not change marketer delivery behavior, and will ultimately benefit customers through lower prices and more options as more marketers may stay or venture into the Massachusetts market.
Synchronization of nomination deadlines – Will provide administrative benefits.
Marketer access to algorithms – Will give marketers an improved ability to plan and deliver and will improve reliability.
Modification of algorithms – Along with monthly reconciliation and perhaps daily cashouts will make balancing fairer and less costly for algorithm customers. Currently, the semi-annual imbalance reconciliation is costing Hess and Select and their customers hundreds of thousands of dollars each. Transportation customers are subsidizing firm customers.

DTE 04-01
Responses of Amerada Hess Corp. and Select Energy, Inc.
Second Set of Information Requests from the DTE
Witness: Rebecca Bachelder
July 15, 2004

DTE 2-8 If the Department were to adopt the terms and conditions changes proposed by the marketers and maintained the slice-of-system policy, please address the effect on system operations and competition.

Response:
Please see DTE 2-7.